

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
CRESTLINE SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 30, 2006

**County of San Bernardino Special Districts
Crestline Sanitation District**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 30, 2006

Tom Sutton, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF CRESTLINE SANITATION DISTRICT FOR THE FISCAL YEAR
ENDED JUNE 30, 2006**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Crestline Sanitation District for the fiscal year ended June 30, 2006.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of Crestline Sanitation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2006, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

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**County of San Bernardino
Crestline Sanitation District
Balance Sheet
Proprietary Funds
June 30, 2006**

	<u>Enterprise Fund Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,315,933
Restricted Cash	239,371
Accounts receivable (net)	347,708
Taxes receivable	83,744
Interest receivable	60,280
Due from other governments	100,483
Total current assets	<u>7,147,519</u>
Long-Term assets:	
Capital assets:	
Land	213,308
Construction in progress	348,857
Structures and improvements	22,246,817
Equipment and vehicles	1,414,887
Less accumulated depreciation	<u>(15,514,802)</u>
Total long-term assets	<u>8,709,067</u>
Total assets	<u>\$ 15,856,586</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 59,408
Other Liabilities	239,371
Current portion of loans payable	88,005
Total current liabilities	<u>386,784</u>
Long-term liabilities:	
Noncurrent portion of loans payable	<u>1,073,842</u>
Total long-term liabilities	<u>1,073,842</u>
Total liabilities	<u>1,460,626</u>
NET ASSETS	
Net assets invested in capital assets, net of related debt	7,547,220
Restricted net assets	239,371
Unrestricted net assets	6,609,369
Total net assets	<u>14,395,960</u>
Total liabilities and net assets	<u>\$ 15,856,586</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Crestline Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006**

	<u>Enterprise Fund</u> <u>Sewer</u>
OPERATING REVENUES	
Charges for services	\$ 1,934,081
Total operating revenues	<u>1,934,081</u>
OPERATING EXPENSES	
Professional services	140,605
Services and supplies	2,347,025
Utilities	83,689
Other operating expenses	8,091
Depreciation	569,453
Bad Debt Expense	31,158
Total operating expenses	<u>3,180,021</u>
Operating Income (Loss)	<u>(1,245,940)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	179,429
Property taxes	622,415
Special Assessments	37,914
Other taxes	65,681
State aid	87,449
Gain on sale of fixed assets	300
Other nonoperating revenues	8,344
Interest expense	<u>(21,457)</u>
Total nonoperating revenues (expenses)	<u>980,075</u>
Change in net assets	(265,865)
Net assets - beginning	<u>14,661,825</u>
Net assets - ending	<u>\$ 14,395,960</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Crestline Sanitation District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from user charges	\$ 1,852,791
Cash payments to suppliers of goods and services	<u>(2,518,200)</u>
Net cash provided (used) by operating activities	<u>(665,409)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes Received	695,234
Grants Received	87,449
Other revenue	300
Other Non-operating revenue	<u>8,344</u>
Net cash provided (used) by noncapital financing activities	<u>791,327</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of fixed assets	(249,981)
Principal paid on bonds and notes	(86,518)
Interest paid on long term liability	<u>(21,457)</u>
Net cash provided (used) by capital and related financing activities	<u>(357,956)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest revenue	<u>161,024</u>
Net cash provided by investing activities	<u>161,024</u>

Net increase (decrease) in cash and cash equivalents	(71,014)
Balance -- beginning of the year	<u>6,626,318</u>
Balance -- end of the year	<u><u>\$ 6,555,304</u></u>

Reconciliation of operating income (loss) to net cash provided

(used) by operating activities:

Operating income (loss)	\$ (1,245,940)
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation expense	569,453
Bad Debt Expense	31,158
Change in assets and liabilities:	
Receivables, net	(81,290)
Accounts and other payables	<u>61,210</u>
Net cash provided by operating activities	<u><u>\$ (665,409)</u></u>

The notes to the financial statements are an integral part of this statement

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Crestline Sanitation District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on January 21, 1946, to provide sewer services to the Lake Gregory area. The District operates and maintains three treatment plants, 90 miles of collection systems, 14-mile effluent outfall line, and an effluent disposal site. The District currently serves 5,285 residential and commercial connections.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Crestline Sanitation District and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The transactions of the District are accounted for on a flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

All activities of the District are accounted for within a single proprietary (enterprise) fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements. This is considered a clearing account and should not be reported in agency funds. Therefore, it is reported as assets in the appropriate proprietary funds.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2006.

Receivables

The allowance for doubtful accounts is subtracted from gross receivables on the Balance Sheet to show the net receivable balance. All accounts receivables are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and Improvements	20 – 45
Utility Plant in Service	45
Equipment and Vehicles	5 – 15

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Net assets

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consist of net assets of the District that are not restricted for any project or other purpose.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: ACCOUNTS RECEIVABLE

The allowance for doubtful accounts is subtracted from gross receivables on the Balance Sheet to show the net receivable balance. All accounts receivables are shown net of an allowance for uncollectibles when applicable.

Accounts receivable balance for the year ended June 30, 2006 was as follows:

<u>Gross Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Ending Balance</u>
\$378,866	\$31,158	\$347,708

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 3: CAPITAL ASSETS

Capital assets activities during the year were as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	\$ 213,308.00
Construction in progress	292,741	69,832	(13,716)	348,857
Total capital assets, not being depreciated	<u>506,049</u>	<u>69,832</u>	<u>(13,716)</u>	<u>562,165</u>
Capital assets, being depreciated:				
Land improvements	17,042,916	108,991	-	17,151,907
Structures	5,083,460	11,450	-	5,094,910
Vehicles	1,101,417	28,169	(24,465)	1,105,121
Equipment	278,227	31,539	-	309,766
Total capital assets, being depreciated	<u>23,506,020</u>	<u>180,149</u>	<u>(24,465)</u>	<u>23,661,704</u>
Less accumulated depreciation for:				
Land improvements	(11,338,863)	(391,941)	-	(11,730,804)
Structures	(2,560,993)	(99,184)	-	(2,660,177)
Vehicles	(921,891)	(63,399)	24,465	(960,825)
Equipment	(148,067)	(14,929)		(162,996)
Total accumulated depreciation	<u>(14,969,814)</u>	<u>(569,453)</u>	<u>24,465</u>	<u>(15,514,802)</u>
Total capital assets, being depreciated, net	<u>8,536,206</u>	<u>(389,304)</u>	<u>-</u>	<u>8,146,902</u>
Capital assets, net	<u>\$ 9,042,255</u>	<u>\$ (319,472)</u>	<u>\$ (13,716)</u>	<u>\$ 8,709,067</u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 3: CAPITAL ASSETS – Continued

Construction in Progress

Construction in progress represents the following projects:

Project Title	Budget	Expenses as of 06/30/2006	Projected Completion Date
Prefab Scrubber Building	\$ 20,000	\$ 8,000	2006
Facility Expansion	2,345,324	336,312	2007
Huston Creek Facility Expansion	750,000	4,545	2007
		<u>\$ 348,857</u>	

NOTE 4: LOAN PAYABLE

On January 16, 1997, the District received a revolving fund loan from The State Water Resources Control Board in the amount of \$2,159,508. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,925 was funded by local matching funds. The loan will be repaid in March 2018. At June 30, 2006, the outstanding principal balance is \$1,161,847. A summary of loan payments for the remaining fiscal years is as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 88,005	\$ 19,970	\$ 107,975
2008	89,518	18,457	107,975
2009	91,057	16,918	107,975
2010	92,622	15,353	107,975
2011	94,214	13,761	107,975
2012-2016	495,923	43,954	539,877
2017-2018	210,508	5,443	215,951
Total	<u>\$ 1,161,847</u>	<u>\$ 133,856</u>	<u>\$ 1,295,703</u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 5: LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2006:

	Principal Balance July 1, 2005	Additions	Deductions	Principal Balance June 30, 2006	Due Within One Year
Loan Payable	\$ 1,248,365	\$ -	\$ 86,518	\$ 1,161,847	\$ 88,005
Total long-term liabilities	<u>\$ 1,248,365</u>	<u>\$ -</u>	<u>\$ 86,518</u>	<u>\$ 1,161,847</u>	<u>\$ 88,005</u>

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (AQMD), were later included, along with the County of San Bernardino (County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 6: RETIREMENT PLAN – *Continued*

Funding Policy (*amounts reported in thousands*)

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2006, were as follows:

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest On Pension Assets	(34,207)
Adjustment To The Annual Required Contribution	40,156
Annual Pension Cost	<u>172,563</u>
Annual Contributions Made	<u>166,614</u>
Increase/(Decrease) in Pension Assets	(5,949)
Pension Asset, Beginning of Year	844,882
Pension Asset, End of Year	<u><u>\$ 838,933</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made		Percentage Contributed
	SBCERA	County	
2004	652,325	540,106	100%
2005	161,906	141,450	100%
2006	197,343	166,614	100%

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 6: RETIREMENT PLAN – *Continued*

The County, along with the AQMD, issued Pension Refunding Bonds (Bonds) in November 1995 with an aggregate amount of \$420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266. The current amount outstanding at June 30, 2006 is \$439,879.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070, \$149,825, and \$125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2006 is \$461,665.

NOTE 7: SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim

with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 7: SELF INSURANCE – Continued

The activities related to such programs are accounted for in the Division except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Department's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the Department's practice to obtain actuarial studies on an annual basis.

The Department has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The Department's investment in the agreement totaled \$47.7 million at June 30, 2006.

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2004-05	\$101,709	\$44,309	(\$30,304)	\$115,714
2005-06	\$115,714	\$46,926	(\$35,407)	\$127,233

NOTE 8: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2006, the District made the following Interfund Transfers In and (Out):

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 8: TRANSFERS IN/OUT— Continued

FUND	PURPOSE	AMOUNT
EGS To CQM	to fund capital projects from reserves	\$ 150,000
EGY To EGS operations fund	to replenish funds	813,053
EGS To CQO	to fund capital projects from reserves	12,791
EGS To CQN	to fund capital projects from reserves	20,000
EGS DEPRECIATION TO REPLACEMENT RE	Capital replacement reserves for depreciation	567,816
EGS FUND CIP PROJECTS	to fund capital projects from reserves	130,300
EGV DEBT SERVICE TO OPERATING	to fund debt service made from EGS	108,000
EGY 05/06 O & M SUPPORT	to fund Operations and Maintenance Support	1,532,106
EGY FUND CIP PROJECTS	to fund capital projects from reserves	130,300
EGY DEBT SERVICE TO EXP PROJECT	to fund debt service made from EGS	108,000
CQM To EGS operations fund	to transfer completed project into fund EGS	96,200
EGY From EGS	to fund cash deficit	(657,398)
CQM From Reserves 05/06 Budget	to fund capital projects from reserves	(150,000)
EGS From EGY	To replenish funds	(813,053)
CQO From Reserves 05/06 Budget	to fund capital projects from reserves	(12,791)
CQN From Reserves 05/06 Budget	to fund capital projects from reserves	(20,000)
CJL FUND CIP PROJECTS FROM OPERATING	to fund capital projects from reserves	(130,300)
EGS DEBT SERVICE FROM REPLC RESERV	to fund debt service made from EGS	(108,000)
EGS DEBT SERVICE FROM REPLC RESERV	to fund debt service made from EGS	(108,000)
EGS 05/06 O & M SUPPORT	to fund Operations and Maintenance Support	(1,532,106)
EGS FUND CIP PROJECTS FROM REPLC R	to fund capital projects from reserves	(130,300)
EGY DEPRECIATION FROM OPERATING	Capital replacement reserves for depreciation	(567,816)
EGS To EGY	to fund cash deficit	657,398
EGS From CIP fund to EGS operations Fund	to transfer completed project into fund EGS	(96,200)
Net Interfund Transfers		<u><u>\$ -</u></u>

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2006**

NOTE 9: NET ASSETS – Continued

Invested in Capital Assets, Net of Related Debt:

Net land, land improvements, infrastructure, construction in progress, structures and improvements, equipment and vehicles.	\$ 8,709,067
Less: Revolving loans payable	(1,161,847)
Restricted for Capital Assets	<u>7,547,220</u>

Restricted for:

Matured bonds held by Treasurer/Tax-Collector of the County of San Bernardino	239,371
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Unrestricted	<u>6,609,369</u>
Total Net Assets	<u><u>\$ 14,395,960</u></u>

NOTE 10: SPECIAL ASSESSMENTS – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 (Bonds) to finance certain sewer improvements. The District reports the Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. All the District's bonds matured as of July 2, 1996. The portion of the matured Bonds held by the Treasurer/Tax-Collector of the County of San Bernardino amounting to \$239,371 is reported as restricted net assets.

NOTE 11 – PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2005-2006 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.